



Boverket

Swedish National Board of Housing,
Building and Planning



Credit guarantees
– how they work

■ A credit guarantee is an insurance policy that lenders can take out for loans on new and renovated housing, and when purchasing real estate to be converted into cooperative, tenant-owner housing. The credit guarantee provides the lender with protection against credit losses and reduces the need for final loans or private capital investment for those who build housing.

A credit guarantee can be given for new or converted single-family homes and apartment buildings that are let as rental or tenant-owner apartments, for new construction of owner-occupied houses, owner-occupied apartments and for conversions to cooperative, tenant-owner housing. Credit guarantees can be granted for loans of up to 90% of the long-term, sustainable market value. For buildings that have cooperative tenant owner apartments, a guarantee is given up to 95% of the market value. In regions with low market values, the amount of a credit guarantee may correspond to a standard amount.

There is a fee for credit guarantees. The fee for any particular guarantee depends on the risks in the project in question.

There are two types of guarantees: base guarantees and fixed-term guarantees.

- A base guarantee runs until further notice, but no longer than the term of the loan. The base guarantee may be reduced or terminated at any time by the lender.
- For a fixed-term guarantee, the period of validity of the guarantee is determined when the guarantee is issued. A fixed-term guarantee may be extended after consideration.

The credit guarantee takes effect if the borrower does not fulfil commitments to the lender and the property must be sold as a result. In some cases, compensation may be provided without the property being sold, but approval by Boverket is required for this. When the guarantee takes effect, Boverket takes over the lender's claims on the borrower.

How they work

Boverket can make a preliminary assessment and decision on the feasibility of a guarantee before building starts. A preliminary assessment can be important for arranging financing, both for loans during the construction period and final financing. A preliminary assessment can be sent to the lender and to the borrower. When lenders and borrowers are in agreement on financing, it is the lender who applies for a credit guarantee. The guarantee agreement lays down the conditions and the fee for the guarantee.

An application to take out a credit guarantee is made in connection with the start of construction if it is for a guarantee during the construction period, or when the building is completed in the case of a guarantee for final financing.

Boverket's decision is based on an assessment of the long-term sustainable market value of the property. In regions with low market values, the amount of a credit guarantee may correspond to a standard amount. Boverket also makes an assessment of the borrower's capacity to pay, the project's cash flow, securities and market conditions.

Summary of conditions

Scope of the guarantee

At the start of the guarantee period, the credit guarantee may be equal to a maximum of 90% of the market value of the property. In regions with low market values, the amount of a credit guarantee may correspond to a standard amount. In these cases the credit guarantee may extend to 90% of the cost of new construction or renovation, but there is a maximum of SEK 16,000 per square metre of heated living space. For new construction or conversion to cooperative tenant-owner apartments, the figure is maximum 95% of the market value.

Guarantee period

The credit institution and Boverket agree on how long the guarantee will be valid, but it can be no longer than the term of the loan.

Application

In order to make a preliminary assessment or sign a contract for a credit guarantee, Boverket needs:

- project description
- market valuation of the property
- credit transfer plan if the guarantee is valid during the construction period
- basis for the assessment of the borrower's paying capacity in the form of a cash flow calculation for the property, credit rating, current annual report or similar
- credit memos where appropriate.

If the application concerns a guarantee for an owner-occupied house, a market valuation of the property is required as well as a credit transfer plan if the guarantee is for the construction period.

Credit rating

For a credit guarantee to be issued, the credit institute must assess that the borrower has the capacity to fulfil the loan undertaken.

Security for the guaranteed loan

As a general rule, there must be a mortgage deed as security for the guarantee loan, but other forms of security may also be approved.

Fee

Fees for the credit guarantee are based on Boverket's risk assessment. The guarantee fee must correspond to the expected loss and other costs that the guarantee commitment costs the state. Six factors are key in this assessment:

- validity period of the guarantee
- loan ratio
- guarantee loan's proportion of value
- market conditions
- creditworthiness
- profitability prospects for the project.

Compensation to the lender

The credit guarantee takes effect if the borrower cannot fulfil commitments to the lender and the property must be sold as a result. In certain cases, and if it is acceptable to Boverket, compensation may be paid without the property being sold (composition). In order to protect its claim, Boverket may also purchase the property in question. Compensation shall be given for the lender's capital losses. In addition, the guarantee replaces interest losses and certain other costs up to a maximum amount.

Recourse and concession

When the guarantee takes effect, Boverket takes over the lender's claims on the borrower (recourse). If the borrower so requests, Boverket can under certain conditions waive its claim.

Credit guarantee system - regulations

The regulations governing the furnishing of guarantees can be found in:

- Regulation (2004:105) on state credit guarantees for loans on housing, etc.
- Regulation (2011:211) on loaning and guarantees



Boverket

Swedish National Board of Housing,
Building and Planning

Box 534, 371 23 Stockholm
Phone: +46(0)455-35 30 00
Website: www.boverket.se

You can find more information about credit guarantees at www.boverket.se. Boverket and the Swedish National Housing Credit Guarantee Board (BKN) have been one authority since 1 October 2012. Credit guarantees, which were previously dealt with by BKN, are now managed by Boverket.